COMPREHENSIVE ELECTRICITY COMPETITION PLAN

Questions and Answers

Q: HOW MUCH WILL AMERICAN CONSUMERS SAVE FROM RETAIL COMPETITION?

A: The Department of Energy estimates that consumers will enjoy approximately $20 billion per year in savings due to the introduction of retail competition.

For the typical family of four, that translates into over $230 per year: $104 per year directly -- in lower electricity bills -- and another $128 per year indirectly -- in lower costs for goods and services that were manufactured using electricity.

Q: WHAT IS THE BASIS FOR THE $20 BILLION SAVINGS ESTIMATE?

A: The $20 billion savings estimate is based on economic modeling conducted by the Department of Energy's Policy Office, as well as analyses of cost-reduction opportunities and developments in states that are making an early transition to competition.

Our estimate, which is slightly less than 10 percent of the $212 billion value of electricity sales in 1996, is conservative -- and other analyses predict far higher savings.

Q: HOW DO WE KNOW RESIDENTIAL CUSTOMERS WILL ENJOY THE BENEFITS OF COMPETITION?

A: Electricity sellers are unlikely to ignore the residential market, which accounts for approximately one-third of electricity consumption and one-half of electricity industry revenues.

In addition to direct savings from lower electricity bills, residential consumers will enjoy indirect savings -- as reductions in electricity costs to commercial and industrial users are passed through into the prices of consumer goods and services. In fact, some analyses indicate that residential customers might receive the greatest price reductions -- since they are currently charged the highest rates.

Q: WHY DON'T YOU ALLOW THE STATES TO DO THIS? WHY DO WE NEED FEDERAL LEGISLATION?

A: We respect the actions of many States to institute retail competition, and seek to build on, rather than disrupt, State efforts. However, the States alone cannot obtain the full economic and environmental benefits of competition for American consumers.

Without comprehensive Federal electricity restructuring legislation, electricity prices will be higher because neither State nor Federal regulators will have the tools to ensure that regional electricity markets are truly competitive and operate as efficiently as possible.

Furthermore, only Federal legislation can assure the reliability of the interstate electricity grid.

Finally, Federal legislation is needed to guarantee substantial environmental benefits from electricity restructuring.

Q: WILL THE ADMINISTRATION'S COMPREHENSIVE ELECTRICITY COMPETITION PLAN CAUSE ELECTRICITY COSTS TO GO UP IN STATES AND REGIONS THAT ARE CURRENTLY LOW-COST?

A: No. There are opportunities for the electricity industry to become more efficient and responsive to consumers in all areas of the country, including low-cost regions. Our economic analyses show that under our plan, electricity consumers in all regions will benefit from competition, although consumers in high-cost areas will likely see the largest reductions in their electricity prices.

Furthermore, our Competition Plan provides each state, including states that currently benefit from low-cost electricity, with the flexibility to implement competition in a manner that reflects its unique situation -- or if they choose, to stay with the current monopoly system. We recognize that a retail competition system that works in New York, where consumers pay as much as 15 cents per kilowatt hour (kWh) for their electricity, may not work in a low-cost state such as Idaho, where rates are as low as 3 or 4 cents per kWh.

Q: WHAT EFFECT WILL THE ADMINISTRATION PLAN HAVE ON THE ENVIRONMENT, INCLUDING GREENHOUSE GASES?

A: We expect the Electricity Competition Plan to produce significant environmental benefits through market mechanisms and policies that promote investment in energy efficiency and renewable energy. Environmental provisions of the plan include:

- A Public Benefits Fund of up to 1.0 mill/kWh, ($3 billion a year) to finance energy efficiency and other public benefit programs;

- "Green labeling" provisions to help consumers identify and choose power from environmentally friendly generators;

- A Renewable Portfolio Standard, to require that at least 5.5 percent of electricity sales be generated from non-hydroelectric renewable sources, subject to a cost cap; and

- Trading authority for NOx emissions, to facilitate cost-effective, market-driven NOx reductions.

In addition, we expect that retail competition will strengthen incentives to improve efficiency, and reduce the two-thirds waste of energy currently associated with fossil-fuel generation of electricity -- thereby further cutting greenhouse gas emissions, saving money, reducing pollution, and conserving fuel.

We estimate that our Plan will reduce greenhouse gas emissions by 25 to 40 million metric tons in 2010.

Q: THE PRESIDENT'S OCTOBER 22 CLIMATE POLICY STATEMENT PROMISES THAT ELECTRICITY RESTRUCTURING WILL PROVIDE A SIGNIFICANT DOWNPAYMENT ON GREENHOUSE GAS EMISSIONS REDUCTION. HOW DOES THE PLAN, WHICH DOES NOT PROVIDE FOR NEW AUTHORITY TO CAP CARBON DIOXIDE EMISSIONS, MEET THIS CRITERION?

A: As noted above, we expect the Administration's plan to reduce carbon emissions by 25 to 40 million metric tons in 2010. And we'll do so while *saving* money: as the Chair of the Council of Economic Advisers indicated in recent testimony, competition will provide economic savings on the order of $20 billion annually.

Q: ARE YOU INCLUDING CAP-AND-TRADE AUTHORITY FOR CARBON IN THIS PROPOSAL?

A: We are not asking this Congress for cap-and-trade authority as part of the Administration's electricity restructuring proposal. The Administration's climate change policy calls for cap-and-trade authority to be in place by 2008, and the Administration will consider in consultation with Congress whatever legislative vehicle is most appropriate for this purpose.

Q: WHY IS THERE A DIFFERENCE BETWEEN THE DEPARTMENT OF ENERGY'S SAVINGS ESTIMATES FOR THE COMPREHENSIVE ELECTRICITY COMPETITION PLAN AND ESTIMATES INCLUDED IN THE ENERGY INFORMATION ADMINISTRATION'S (EIA) AUGUST 1997 REPORT, ELECTRICITY PRICES IN A COMPETITIVE ENVIRONMENT?

A: The August 1997 EIA study represented EIA's initial effort to examine issues surrounding retail electricity competition. It is not an analysis of the impact of the Comprehensive Electricity Plan.

As is the case with any analysis, the results of the EIA study are influenced by the assumptions underlying it. A number of those assumptions do not reflect the Administration's Competition Plan and have the effect of understating the benefits of retail competition.

First, the Administration Plan preserves the continued sale of preference power at cost-based rates, whereas the EIA analysis assumes that all electricity will be sold at market prices.

Second, the Administration Plan preserves the authority of States to craft retail competition in a manner that fits their unique circumstances in order to protect consumers, whereas the EIA analysis essentially assumes that States will not be able to take such steps.

Third, we believe that the advent of competition will greatly improve the efficiency of the electricity sector, whereas the EIA study assumes the same general efficiency trends under either competition or continuation of the monopoly system. The increased efficiency in the utility industry due to wholesale competition, the effect of competition in other industries, and analyses prepared by others provide strong support for our view that competition will inspire significantly increased efficiency.

Q: HOW WILL CONSUMERS BE ABLE TO TELL WHICH ELECTRICITY SUPPLIER IS OFFERING THE BEST DEAL?

A: The Administration recognizes that most customers will be making electricity supplier choices for the first time. In order to get the lowest possible price on electricity, consumers will need reliable information so they can comparison shop for electricity.

That is why the Administration Plan includes a requirement for electricity labeling along the lines of the Food and Drug Administration's highly successful nutritional labeling system. Uniform labeling information will also prevent misleading or fraudulent claims, particularly in the case of suppliers offering power generated using renewable resources or other clean sources.

Q: HOW WILL THE PLAN ENSURE THAT THE ELECTRICITY SYSTEM STAYS RELIABLE?

A: Reliability and competition can -- and must -- go hand in hand. Our Plan replaces the current voluntary reliability system with mandatory reliability rules of the road which which industry must comply.

We propose to build upon the industry's tradition of self regulation by requiring key market participants to join an organization that would establish reliability standards and enforce those standards subject to the oversight of the Federal Energy Regulatory Commission. The recommendations from the Department of Energy's Task Force on Electric System Reliability, an independent advisory body, serve as the foundation for this proposal.

Q: HOW CAN WE BE ASSURED THAT COMPETITION WON'T PERMIT CERTAIN LARGE ELECTRICITY COMPANIES TO MANIPULATE THE MARKET AT THE EXPENSE OF CONSUMERS?

A: We are confident that replacing the current utility monopoly structure with competition will provide immense savings to consumers. The Plan recognizes, however, that intervention may be necessary in areas where the previously monopolistic utility is such a dominant presence that it has the ability to exercise monopoly power at the expense of consumers.

To ensure that competitive markets develop following implementation of retail competition, the Plan provides the Federal Energy Regulatory Commission with the necessary tools to remedy market power in the event a State does not have sufficient authority to resolve such a problem.

Q: WHY DOES THE PLAN INCLUDE A FLEXIBLE MANDATE FOR STATES TO IMPLEMENT RETAIL COMPETITION, INSTEAD OF A HARD MANDATE?

A: The Administration is confident that properly crafted retail competition structures will benefit consumers in all parts of the country. At the same time, we recognize that the circumstances in each State vary widely and consequently a "one-size fits all" hard mandate is not the best way to implement retail competition. States need to have the flexibility to tailor retail competition structures to meet their unique needs.

The flexible mandate is the best means to obtain the economic benefits of competition while preserving State flexibility. The flexible mandate requires each utility to permit all of its retail customers to purchase power from the supplier of their choice by January 1, 2003, but would permit States or non-regulated utilities to opt out of the competition mandate if they find, on the basis of a public proceeding, that consumers in the State would be better served by an alternative policy such as a State-crafted retail competition plan or the current monopoly system.